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## THE CRISIS OF 1890.

The great commercial crisis of 1873, which first broke out in Vienna, left its most severe and most protracted after-effects in Austria-Hungary. So deeply did the nation suffer in its capital, in its industry, and—with the increasing competition of American grain-growers—in its agriculture, that the consequent depression lasted until a few years ago; and the spirit of enterprise, moreover, has not yet reëstablished itself. Another result has been that Austria-Hungary has remained exempt to this day from over-production and speculation, and has, therefore, fortunately escaped the crisis of 1890, which convulsed the great money-markets, like those of London and Berlin, when the destructive crash in the Argentine Republic gave the signal for the collapse. As it happens, Austria-Hungary is more of a debtor than a creditor to foreign countries, and therefore has been spared losses which have cost English and German capital many milliards of marks.

On the other hand, France, of course, because of her enormous losses in the war of 1870–I, escaped the excess of speculation and the consequent crisis of 1873. But, ten years later, the country had so fully recovered, that speculation again raised its head in Paris, and the “Union Générale,” holding a dominating position, began to stretch its fangs out even to Austria-Hungary, and carried on a system of stock-jobbing so reckless, that in 1882, the card-house again fell. Such corrupt practices brought on the necessity of inexorable liquidation and punishment. As a consequence of this, Germany surrounded its joint stock laws with more precautions; and I myself at the time drew up four rules,<sup>1</sup> calculated to put a stop to stock-jobbing on the occasion of the founding of new stock-companies:

<sup>1</sup> See my *Geschichte der Handelskrisen*, 4th edition, p. 652.

1. It is not permissible to buy the shares of the company through the agency of the company.
2. New shares shall not be issued for sale until old shares have been paid up in full.
3. Investors shall be allowed to inspect the books of the company.
4. Technical, organized, and regular inspection on the part of the State, by means of a Bureau for the Control of Stock-Companies. Agents of this Bureau, like factory inspectors, to make it their business in life to examine the books and the course of action of stock-companies.

I later added a fifth rule:

5. Responsibility of the founders of stock-companies for the truth of the professions in their prospectuses.

Almost contemporaneously with the speculation-mania in France, the construction of railroads in the United States had made such enormous strides, that the iron and steel industry, even though its production had been greatly increased, was unable to deliver the required amount of rails, and, in spite of protective duties, the demand reached the iron districts of England, Belgium and Germany. To avoid the enormous duties on steel rails, American rail-factories imported English and Westphalian steel-castings of the proper dimensions for the manufacture of rails. The net-work of railroads in the United States was, between 1881 and 1883, increased by 30,000 miles, and to-day is of almost twice the length of the railroad system of all Europe with its five-fold greater population. This extension, however, was followed by a revulsion in 1884, which made itself felt in all the business centers of the world; and, in Europe especially, it brought about an unprecedented stagnation of trade.

With the beginning of the second half of the year 1884, the prices of the greater number of agricultural and manufacturing products began to fall to a degree out of all proportion to the acknowledged causes of the fall, especially as peace was not endangered. Industrial and speculative stocks fell at the same

time, while all good government securities rose, owing to the amount of idle capital seeking them. Ready money accumulated in the banks, and there was a permanent fall of one per cent. in the rate of discount.

Up to that time it had been announced by economists as an axiom that reduction of prices, abundance of capital and money, and low rates of interest, exert a powerful influence in favor of the revival of business, and create a spirit of enterprise and speculation. During the years from 1884 to 1887, the reverse had taken place. There had been few periods in history when business in general had been so dull. There was, in the greater part of Europe, no more work to do than what was indispensable to preserve working people from starvation. Students, economists, statesmen and journalists were occupied in finding out the causes of this strange situation. The British Parliament called a special committee to examine the matter, which confined itself to stating the facts of the stagnation, and mentioning a single cause—overproduction. The predilection for generalizing induced, also, a man of scientific spirit, the director of the Office of Statistics of the Board of Trade, Mr. Robert Giffen, in a report which was read in the Royal Statistical Society at London, to assign but a single cause for the stagnation: *i. e.*, that from the decrease of production, and the rising value, of gold had resulted the decline in the prices of goods. Although this hypothesis was very soon refuted in a meeting of the same body, it obtained credence on the continent notwithstanding, and was adopted by the President of the Club of Austrian Economists at Vienna. I opposed it several times, and even published a book with the aim of refuting this hypothesis as false and dangerous,<sup>1</sup> arguing that the alleged index number of the price movement of 250 articles has no value, because it is composed of heterogeneous elements, and because prices of different articles are ruled by different influences. Although it cannot be denied that the greater number of articles

<sup>1</sup> *Die Quellen des Reichthums mit Rücksicht auf Geschäfts-stockungen und Krisen von Max Wirth* Köln, 1886. *Schauberg'sche Buchhandlung.*

did fall in price, yet a great many remained unchanged, and many rose, some even to an extraordinary degree: *e. g.*, tobacco, more than 100 per cent., indigo, 50 per cent., meat, 10 to 30 per cent. If the rising value of gold has had an influence upon prices, the result should be the same for all articles; the fall of prices should have extended to all goods, except for special reasons in each branch of trade, which could be explained very easily. Every merchant can answer this question in his own line. I concluded that a rise in the value of gold had not taken place; or that, if it had, the degree of rise was so small, that it need not be taken into account as compared with the real fall of prices. I argued that the real causes of the stagnation were manifold: overproduction and stock-jobbing, especially in the concerns for the production of sugar, iron and steel, copper and silver; the fall of the price of the latter, by which the stability of the standard in many countries has been undermined; the reaction against free trade; the rising competition with trans-oceanic corn-producing countries; the bankruptcy of many half-civilized countries; the lessened construction of railways in Europe; the rising of the price of stocks, by which investors' income was reduced, as well as by conversions and reductions of interest to an amount without example in history; the uneasiness of entrepreneurs in view of the warlike spirit in France and Russia, as well as of the socialist agitations and untimely strikes; the difficulty of carrying a financial enterprise through a long period of time due to the continual deranging of customs and railway-tariffs. But it is not necessary to inquire further into this matter, because time has already proved the truth of my statements. No one any longer dreams of gold as the cause of the past stagnation.

There was one country—the Argentine Republic—which profited by this situation, and London stock-jobbers and bankers were ready to help in raising the credit of the republic, the provinces, the towns, and the joint-stock companies to a degree quite out of proportion to the small population of the country.

During the last twenty years the emigration from Europe to Argentina has attained larger proportions than at any previous period. Emigration to the United States had, from different causes, decreased for some years, especially for the last ten years; but the immigration into Argentina increased in such a degree that the population rose from 2,122,000 in 1870 to 4,200,000 heads in 1890. The immigrants brought capital with them, and purchased land to settle; consequently the price of land rose considerably. Roads, railways, waterworks, and all sorts of industrial concerns were built, and mortgage banks were created which sold enormous quantities of bonds to English, Belgian, and German investors. In the meantime towns, provinces, and the Argentine Union took advantage of the low rate of interest and the abundance of money in Europe to contract as many loans as possible, new loans often being made in order to pay the interest on former ones. Thus, during the years from 1882 to 1889, Argentina and its provinces, towns, mortgage-banks, and other concerns became indebted to European investors for over one thousand million dollars. There is no well governed country in Europe which could get so large a credit in proportion to the number of its people. Considering that for a great many of these loans six per cent. interest was promised, that the lowest rate was five per cent, and that the national budget of Argentina in 1890 disclosed only seventy million dollars of income, of which forty-six million dollars came from customs duties, it is obvious that a population of little more than four millions is not in the position to assume such an amount of interest. In 1886 European investors already began to suspect that the Argentine credit was being overworked; so that a new six per cent. loan was contracted on the condition that the interest should be paid in gold rather than from the revenues of the custom duties. Besides, the money obtained by the continual borrowing had been very badly managed. Corruption prevailed in government circles. This appeared most openly in the management of the national and provincial mortgage-banks, in which encroaching nepotism was the order of the day. Loans were allowed less by

reason of good security than as a matter of personal favor. Thus in many cases the value of land was estimated by the trustees of the banks far too high; sometimes so unreasonably high that there were debtors who, having received the capital of the loan and paid interest "*praenumerando*" for half a year, abandoned their property and left it to the bank, settling in another place or emigrating. Under such circumstances the mortgage-banks soon drifted into difficulty, even to the point of being utterly unable to pay the interest on their bonds, of which large amounts were taken up by Belgian and German investors. When their credit was at last exhausted, and the different Argentine debtors could no longer pay interest by the help of new loans, the central government began to render assistance by inflation. Different kinds of notes were issued one after the other in such abnormal amounts that they depreciated, and the gold premium rose to at least 300 per cent. In one single year the circulation had been augmented by 210 million dollars.

Distrust of this public mismanagement at last arising among English and German investors, the last loans were not received by the investing public, but remained in the hands of the issuing bankers, such as Baring Brothers, Murietta & Co., etc., whose coffers were overloaded with Argentine stocks and bonds. Financial operations being stopped in Argentina, bankers, stock-jobbers, and other operators, from the year 1887, chose a new field of action. At the first symptom of a revival of business from the deep stagnation which had reigned for four years, they took possession of the credulous and gain-greedy portion of saving and investing humanity. Some public matters had helped to put an end to the general depression. In view of the menacing attitude of Russia against India, the British Parliament voted to the government the enormous credit of £11,000,000 for armaments, military preparations, and the increase of the navy. The orders for a great number of new iron-clads gave a marked impulse to the revival of the iron and steel trade. These large investments caused similar efforts in France, Russia, and in the empires of the Triple Alliance. The rise of prices in the iron

and steel industry as a consequence brought about a rise of coal prices. This movement was the signal for the rehabilitation of the prices of the other staple articles of international commerce.

Before this healthy process had time to gain vigor the operators in the city had already, before the end of 1887, seized the opportunity for the establishment of new concerns and joint-stock companies, the shares of which they sold, on account of the returning credulity of investors, at rising prices. The favorite form of new enterprises was this time the metamorphosing of private concerns into joint-stock companies. Speculators had a general standing rule for such undertakings, which was afterwards revealed before the law courts, and which I myself could prove by witnesses; they paid to owners of private concerns the required price for their business, but asked a receipt for double the amount, the additional 100 per cent. being charged for the "good will." With fine instinct the city men hinted that in consequence of the devastations of phylloxera in Europe and America, the opportune time for beer breweries was at hand; and they succeeded, first, in changing some of the largest private breweries in England and Ireland into joint-stock companies. Thus the very successful brewery of Arthur Guinness & Co. at Dublin was bought with £1,700,000 and changed into a joint-stock company, with an increase of the working capital up to £3,200,000. The celebrated pale ale brewery of Bass & Co. was changed into a company with a capital of £1,300,000; the brewery of Combe & Co. into a company with a capital of £1,080,000; and the pale ale brewery of Alsopp & Co. into a joint-stock company with a working capital of £3,300,000. In the prospectuses and advertisements of the promoters not a word was wasted on the question as to how a sudden augmentation of the yearly production of beer by £5,000,000 to £10,000,000 could at once find a demand from a proportionally increased number of new consumers. A new and credulous generation had grown up, who believed in the professions of operators promising six or eight per cent. of dividend. It is even probable that they spoke the truth when they declared that those breweries had realized for their private owners even



higher profits. But the sudden enlargement of the production of an article like beer, which cannot be preserved longer than a year, is quite another matter. Even within the course of a year the disillusionizing process began. The Alsopp Company had promised six per cent. to its shareholders, but in the beginning of the year 1890 could only pay three per cent., because, needing raw material for the increased production, it had bought a large quantity of bad barley from the Continent; because it had neglected to provide at the right time a sufficient number of new beer-sellers for the increased product, and they had been secured by competitors; and because a new and unfavorable method of taxing had been introduced. The shareholders even brought a suit against the promoters of the company, but to no avail; inasmuch as the new Act of Parliament, by which in 1890 the responsibility of promoters and directors was declared, had not yet been enacted. But even before that check, the jobbers had extended their speculation in creating new joint-stock companies out of private concerns to both continents, purchasing private breweries in Germany, Austria, and even in the United States.

When at last this scheme failed, resort was had to combination, by which it was attempted to unite a dozen private concerns of similar branches into a joint-stock company, under the same conditions of profit for the operators as above stated. One of most striking examples of this kind was the founding of the Hansard Publishing Union in London. This company failed, and in a long lawsuit brought against its chief promoter, Mr. Bottomley, many of the devices of speculators were revealed. This same Mr. Bottomley had launched in the large London newspapers a similar undertaking for Vienna, under the presidency of Mr. Isaak, the Mayor of London. An English friend of mine who had been invited by Mr. Isaak to participate in this undertaking as one of the directors, asked me for information with regard to the solidity of the enterprise. I made a very thorough examination and found that several concerns, viz., a daily paper (*Wiener Tagblatt*), a library, a paper shop, a profitable advertising business, a printing and lithographing

concern, and two paper mills in the neighborhood of Vienna, had been purchased by means of an account payment, to be combined into a joint-stock company under the title of "The Austrian Printing and Publishing Union." The paper mills had no value at all, because their machinery was too old, and they were producing nothing. The newspaper could not subsist without a subvention. The other concerns were moderately profitable, but the price of purchase was fixed so high that they could not be made profitable in the new combination. The proprietor of one concern told me that his contract with Mr. Bottomley was ready to be completed. The amount was fixed at £1,500, but as he was asked, in accepting this sum, to give a receipt for £3,000, he retired from the affair. I communicated the result of this investigation to my London friend who was very glad to escape; and he gave a hint to the *Economist* by which investors were warned; and the needed capital could not be found. When some subscribers appealed to the Courts, evidence was given that a round £90,000 had been dissipated for founding purposes, of which nearly the whole amount was a gratuity for the Vienna concerns who had a right to keep the account payments as a forfeit.

Simultaneously (1888) at Paris a copper ring had been formed, but it failed as early as 1889. A few years before, rings, cartels, and pools had, during the extraordinary fall of prices, made their appearance also on the European Continent, especially in Germany and Austria, among the large industries of iron, steel, coal, and sugar. These rings caused an opposition to the high import duties, which the large establishments had secured through their great influence over prominent legislators and government officials. They caused, also, a reaction of the working people, who combined in numerous strikes and in socialistic agitation,—which, having come too late, of course met with little success. As to the copper ring, the monopolizing by Rothschild in Paris of the quicksilver mines in Spain, and of the work of the diamond-diggers in South Africa, seduced the directors of the Société des Métaux in Paris to

monopolize the sale of copper. The ring-leaders expected that in consequence of the increasing introduction of electrotechnic installments, the use of copper must increase, and consequently the price must rise. They succeeded in uniting into a coalition all the greater copper-works of the world, which bound themselves to sell all their copper to this syndicate at the price of £70 per ton, the ring raising the selling price to £80. In consequence, the copper ring, which was headed by the Directors of the Société des Métaux, and under the ægis of one of the first banks of Paris, the Comptoir d'Escompte, hoarded about 150,000 tons of copper in the course of a year, the increased price having stopped the sale. Inasmuch as only the large establishments in Spain, America, Africa, and Australia had been received into the ring, small copper-works, of which in Hungary alone there are several hundred, were left out. The increased price, moreover, brought all unknown stocks to market, masses of old copper vessels found their way into the smelting pot, and all copper-works increased their production. The above mentioned 150,000 hoarded tons of copper represented 262,500,000 francs. The capital of the Société des Métaux was soon absorbed by this hoarding. In order to procure new means, the ring-leaders tried to establish a new metal-bank at London; but they failed to find the necessary subscribers or investors. English capitalists were ready to give loans only on deposits of copper at £40 per ton, but half the monopoly price. At this juncture, the Comptoir d'Escompte in Paris gave its assistance, by allowing loans on the security of copper at £70 per ton, to such an amount that its whole capital was engaged, and even the deposits were touched. All these means having been exhausted, the syndicate tried to induce the large copper-works—the Tamarack Company, the great Spanish mines, the Rio Tinto Works, the Tharsis, Masan and Bary Companies,—to agree to a general reduction of production for a short time. The average yearly consumption of copper, amounting up to that time (1888) to 200,000 tons, had been precisely covered by production. Since that time, the latter, in conse-

quence of the operations of the copper ring, had risen to 250,000 tons. The hoped-for agreement between the large works failed. While copper came into the market from all sides, to profit by the high price, the public diminished its use of copper. Only a year had passed when, in the very beginning of the year 1889, the means of the copper ring became exhausted. The leaders could no longer meet their obligations to the large copper works, and the latter began to sell in the open market. The price began to fall. When the means of the Comptoir d'Escompte were also exhausted, Rothschild and other rich houses tried to support the ring by giving loans on deposited copper valued at the market price, which had already sunk to £60 per ton. It was too late. The Manager of the Comptoir d'Escompte, who had not only dissipated the bank's own means, but had also touched deposits, destroyed himself; the Comptoir d'Escompte and the Société des Métaux suspended payment at the end of March, 1889, and were forced to a liquidation before the Bankruptcy Court at Paris. The Directors were condemned to indemnify the creditors, and the Managers of the Société des Métaux were punished with imprisonment and fines. The shareholders lost their capital. The price of copper fell to £38 per ton, and rose again in 1890 only to £60. The catastrophe was the more dangerous for the French money-market, as the suspension of work on the Panama Canal which had absorbed 1,300 millions of French capital from rather poor investors, took place nearly simultaneously.

The revival of business at the beginning of the year 1888 created also a rush for new companies in the nitrate works of Chili, and in the gold mines of Southern Africa, where the diamond mines near Kimberly had given rise to a spirit of speculation. Although these investments in general had a solid and promising foundation, yet swindling was not to be averted. The gold production in Southern Africa had by 1891 reached £3,000,000, and promises for 1892 £4,000,000; but partly in consequence of the breaking out of the Argentine crisis, and partly because of the formation of many fraudulent companies

which had roused the suspicions of investors, 16 of the most prominent gold mines had lost on the price of their shares, as compared with the average of 1889, not less than £13,000,000. Nevertheless, this production is in general prosperous, despite the losses suffered by many too credulous investors. It must, of course, be added that the fall of prices of these gold shares has not yet reached the nominal price. Meanwhile, gold and silver production in Australia is also being carried on to a great extent with capital from the mother country; and even in India old gold mines have been re-opened which begin to give good dividends; at least the mines of Mysore are described as very promising. The eyes of German, English and French investors begin to be directed also to the old gold mines of Transylvania, which were formerly worked for some centuries under the old Roman dominion. There exist still in Hungary some 200 gold mines, which are worked of course on a small scale; in general, silver, copper, lead, etc., being obtained simultaneously with the gold. These small mines yield only a very moderate profit, but that they could become very profitable by the use of better machinery is already proved by some foreign companies. The Company Harkort—a name which is celebrated in Prussia for improvements in the iron, steel and coal works of Westphalia—purchased an old mine of this kind, and after working it a few years with sufficient capital, made such a success that it is getting one million of marks net income each year. Another company commenced working old Roman pits and tunnels and old abandoned ores with very little success, or rather at a loss, when the resolution was taken to bore a new hole in order to open a deeper tunnel. They found no less than the untouched continuation of the stratum worked by the Romans, and are now sure to get a very profitable business.

Swindling was also not a little favored in England by the large number of trustee-companies, by which not only investing, but also gambling, was encouraged among the middle classes. The amount of expansion effected during the three years 1888, 1889 and 1890, in which latter year the house of cards broke down,

can best be estimated by comparing it with that of the previous and following years. The total employment of capital in England amounted to :

£ 98,066,000 in 1887,
160,149,000 in 1888,
189,436,000 in 1889,
142,565,000 in 1890,
104,594,910 in 1891.

Whereas France was deterred by the great losses mentioned above from taking part in the general revival of speculation, and in Austria-Hungary the remembrances of 1873 were a preventive to active enterprise,—the gambling mania spread to Germany, where Berlin took the leading part. In view of the rising prices of industrial shares in the city, operators in Berlin were not slow in using all means to inflate quotations, and to stir up investors in favor of new joint-stock companies, with the aim of making good profits in a short time by always changing their purposes; *i. e.*, by selling the shares of new companies in order to get money free for the purpose of making other fresh issues. Owing to these exertions, and because the general feeling developed into a mania, it seemed that golden days might return for Berlin, and leading papers at Vienna never wearied in incessantly blaming the prudent reserve and cool shyness of Austrian investors, and in praising the enterprising spirit of Berlin, where a new era of prosperity was being inaugurated. The sudden change from the lowest depression of business and prices to a burning activity was inspiring indeed.

One new fact, of course, contributed to the temptation to make new investments. Encouraged by the rising price of the French 3 per cent. Rentes and the reduction of interest on English Consols, the Prussian government proceeded also to the emission of 3 per cent. Consols, and the German Empire followed. This step was in itself quite reasonable, because Prussia deserves to have, in every respect, a better credit than France. It is sufficient to hint at the enormous state debt of France, which requires yearly 1,200 million francs for interest, whereas

the Prussian debt of about 6,000 million marks is covered by state railways, for purchasing and augmenting which this debt was contracted. Not only is the whole interest of the Prussian state debt paid from the net income of the state railways and domains, but there is even a surplus of more than 100 million marks. Nevertheless, German, and especially Prussian, investors were disappointed by this emission, because they had not been accustomed hitherto to so low a rate of interest. In consequence, the Prussian 3 per cent. Consols were not in much demand; and although a few months ago the French 3 per cent. Rentes reached par, the Prussian 3 per cent. Consols were quoted only at 87. German investors, at this time, preferred to purchase foreign securities with high rates of interest; and were so imprudent as to be caught by the radiant descriptions of rising wealth in Argentina, and to buy stocks and bonds from this ill-governed republic, whose downfall I had the honor to predict in the *Neue Freie Presse*, nearly two years before the outbreak of the catastrophe.

When a suspicion of Argentinian securities gradually arose, the rush of investors went again to industrial shares, and a great rise of their prices was the consequence. During the two years of 1888-1889, the prices of the shares of mines and works quoted at the Berlin Stock Exchange, and which represent a total capital of 421 million marks, were increased by 38 per cent. Breweries with 69 millions capital saw their shares rise by  $6\frac{1}{2}$  per cent. The stock of transporting concerns with 113 millions working capital, rose by 17 per cent.; wood-working factories with 9 millions capital, by  $11\frac{1}{2}$  per cent.; engine and tool machinery works with 92 millions capital, by 49 per cent.; building societies with 70 millions capital, by 23 per cent.; chemical works with 30 millions capital, by 41 per cent.; gas and water companies with 27 millions capital, by 4 per cent.; textile factories with 30 millions capital, by  $27\frac{1}{2}$  per cent.; paper manufactories with 14 millions capital, by 7 per cent.; sugar factories with 13 millions capital, by 19 per cent.; various other joint-stock companies for industrial purposes with 139 million marks capital, by 20 per

cent It is, of course, not to be wondered at that such success stimulated the mania for issues on a large scale and in almost all branches of large production. It is interesting to examine the number and capital of German joint-stock companies which were founded in the two critical periods at the beginning of the eighth and the end of the ninth decade of this century.

Year.	Number of New Companies.	Capital Million Marks.	Year.	Number of New Companies.	Capital Million Marks.
1871	203	749 37	1885	70	53 47
1872	478	1,016 21	1886	113	103 94
1873	162	313 73	1887	168	128 41
1874	30	98 15	1888	184	193 68
			1889	360	402 54
1883	192	176 03	1890	236	270 99
1884	153	111 24	1891	85	88 67

It has been calculated that during the years 1871-1890 more than 3000 joint-stock companies were formed with a working capital of 4,850 million marks. Another compilation gives the number of newly-founded joint-stock companies in the four years from 1887-1890 as 948, and the capital as 995,633,000 marks.<sup>1</sup>

Precisely as in London, and on similar occasions in former times which ended with the outbreak of crises, so also at Berlin, the issue of shares of new joint-stock companies became a special business. So eager was the greediness of the public that all promises found willing credit, and the total amount of the capital subscribed for new companies reached the sum above quoted, which, being withdrawn from other concerns, of course stopped business in other branches. In a great many of the new companies the managers over-reached themselves, creating profits and benefits based only on the "good will," which in many cases hindered a successful issue. Swindling went on so unblushingly that some operators did not stop their greedy proceedings till they

<sup>1</sup> I might go too far in trying to enumerate all these companies, but it may be useful to give at least the chief branches :

Agricultural companies, cattle-rearing concerns, mines, works and salines, quarries, etc., metal factories, machinery, chemical works, heating and lighting, textile branches, paper, leather, wood and carving concerns, sugar factories, beer breweries, spirit factories, etc., clothing, building companies, polygraphic concerns, banks, assurance companies, railroads, etc.



had launched a dozen new companies, or were obliged at last to stop payment. It was at this time that the official German Imperial Gazette (*Der Deutsche Reichsanzeiger*) felt obliged to utter a warning. It complained that even the Act of the 18th of July, 1884, by which the joint-stock legislation had been improved on the basis of the experience gained during the crisis of 1873, had not been able to prevent inflation. Business on the Berlin Bourse had taken a dangerous turn. Out of the shares which had been introduced at the Berlin Stock Exchange, in 1886 in seven cases, in 1887 in nine cases, in 1888 in seventeen cases, and in 1889 in twenty-eight cases, the companies had only just been founded, or changed from private concerns into joint-stock companies. And, as a rule, the founders tried to sell their shares as soon as possible at a profit, leaving the new undertakings in the hands of other shareholders, whose directors were not always perfectly acquainted with the business undertaken. Again, out of seventy-five instances of mines and works which were introduced at the Berlin Bourse, the shares of only eleven were officially quoted, whereas the rest were dealt in in the open market. The chief of a large iron-works in the Rhine country declared that more than double the book-value of his business had been offered to him, if he would consent to change it into a joint-stock company; but he refused, because he foresaw great injury from the excessive overproduction of new shareholder's-companies. Some might perhaps pay large dividends for a year or so, but afterwards a reaction would take place, and, as in 1873, a great many people with small means might be ruined.

Near the end of 1889 the mania had become so extravagant, the swindling so reckless, the credulity and greediness of investors so great, that coal speculators predicted the immediate outbreak of a crisis. But this time the imminent danger was warded off by the powerful intervention of the Bank of England and of the German Imperial Bank. The former had already in the autumn given a first warning by raising the rate of discount. As this had been of no avail, it raised the rate on the 31st of December, 1889, to 6 per cent. This sudden and pro-

nounced warning made a great impression. Investors cooled, money was instantly no longer ready for swindling purposes, but was hoarded. A great many bubbles collapsed at their inception. The assistance of the Bank was very great on this occasion. It discounted in two days more than six million pounds sterling. The first danger was averted.

At Berlin, also, the impending danger was prevented by the extraordinary intervention of the Reichsbank. Relying on the solidity of its position, the Director did not adopt the policy of raising the rate of discount in order to prevent a panic; on the contrary, he reduced the rate from 5 to 4 per cent. in February, 1890. But, on the settling day of the 31st of March, the most important day of the whole year for Berlin, because the wool-market wanted 75 million marks more credit from the Bank, the danger rose to its height. The Bank, which is so wisely guided, raised its circulation of notes at once by 154 million marks, and its discounts by 141 millions.

At the end of April the Bank of England was already in a position to reduce the rate of discount to 3 per cent. The danger seemed to be averted, and the British Parliament passed the new Act above quoted, by which not only the authors, promoters and directors of new joint-stock companies were to be held responsible for the exactness and truth of prospectuses, but also the engineers and other specialists, on whose opinion the reputation of the new company is based. During the debates on this bill, some members of Parliament gave graphic accounts of cases in which investors had been cheated by prospectuses which had appeared in London papers, and in which the names of most respectable firms, lords, and members of Parliament were paraded as directors. Some of them got their living by this participation in new companies. In the Directory of Joint-Stock Companies it may be seen that 26 members of the House of Commons were directors in 213 companies; 23 members of the House of Lords were directors in 122 companies, of which 85 pay dividends, 26 have no net income, and 11 were new in January, 1890. According to the old law such show-directors were not liable. One

member of the House of Commons estimated that, during the three years 1887-89, 180 millions had been drawn from the pockets of investors by bubbles.

Thus, some months elapsed in which it was hoped that the menacing danger was subsiding, when in June the long expected and fearful crisis in Buenos Ayres broke out. The government of Argentina hoped to retrieve the catastrophe by a loan of £10,000,000 which had been offered by a syndicate of London bankers, at whose head stood the old firm of Baring Brothers. This large house, in common with other bankers who had issued Argentinian loans, de Murietta, J. S. Morgan & Co., Stern Bros., Morton, Rose & Co., L. Cohen & Sons, had a deep interest in helping Argentina through the struggle, because an enormous amount of issues of recent Argentinian loans had been left in their coffers, investors having taken alarm too soon. This suspicious attitude was speedily justified by the refusal of the Argentine government to agree to the claim of the syndicate to make no further issues of notes or bonds of mortgage banks during the next three years. After this shock, a great many steps were taken to reëstablish confidence. The first was a moratorium for three years; but as inflation was continued, the premium on gold rose to 365 per cent., and as foreign commerce became wholly demoralized because the debtors in Argentina stopped payment, either from want of means and the stagnation of trade, or because they hoped for better foreign exchange, the revenues of the Republic, which consisted chiefly of customs duties, suffered such a reduction that even the most necessary expenditure for the wants of administration could not fairly be got. The actual situation is such that even after the expiration of the moratorium there is no hope of reassuming the payment of interest; and all reports from Buenos Ayres agree in the opinion that the European creditors, if they wish to get anything, must reduce their claims from 5 or 6 per cent. interest—capital is not to be got—to  $2\frac{1}{2}$  or even 2 per cent. I cannot enter into the details of this scandalous catastrophe. The London bankers issuing these stocks hoped for more than four months for a change in the financial or

political affairs, and a consequent rise of prices, that they might lighten themselves of their burden of Argentine securities; but it was in vain, and even after their collapse at the beginning of November, 1890, the prices of these stocks, bonds and shares, sank unexpectedly low.

After the settling day of the 1st of November, 1890, which was exceedingly difficult in the city, the situation of the largest banking-firms issuing Argentine stocks was so strained that it could no longer be maintained. The leader of the banking-house of Baring Brothers made the discreet announcement to the governor of the Bank of England, Mr. Letterdale, that the firm, by reason of its enormous stock of Argentine securities, was obliged to stop payment. That was the frightful end of a house which used to book a net income of one million pounds sterling per annum, a firm which already had an international influence when the first Rothschild still bought and sold old clothes,—whose founder, Francis Baring (connected, like the present Chancellor of the Exchequer, Mr. Goschen, with Bremen), was a friend of the elder and the younger Pitt, and who, in the period of the abundance of great loans after the fall of Napoleon I, competed for the favor of the European powers with the rising financial power of Rothschild; a firm from which sprang three families of the Peerage, Lords Ashburton and Nevel-stoke, and the Earl of Northbrooke, together with ministers, bishops and a viceroy of India. Their device, *Virtus in arduis*, had not remained their guiding star. The firm of Baring Brothers and that of Murietta, an old Spanish house, had put out during the years 1881–1889, £42,000,000 of Argentinian loans on the English money market, of which £20,000,000 alone had been issued in 1888, and nearly £8,000,000 in 1889. The greater part of the latter loan had remained in the coffers of the issuing houses, because distrust had spread among investors in consequence of the illegal re-issue by the Argentine banks of \$92,000,000 of paper money which had been withdrawn by the Argentine government.

It was an act of generosity on the part of the powerful com-

petitor of the Barings, the head of the house of Rothschild, that he was ready at the critical moment, together with the Bank of England, to arrest this fall; remembering, perhaps, that the collapse of the house of Overend, Gurney & Co., in 1866, had caused such a run on the Bank that the total reserve sank to £730,830, and that after having discounted in a single week more than £4,000,000, the government felt constrained to suspend the Bank Act. Baron Rothschild and the Bank of England succeeded in making up a subscription of £15,000,000, and in getting a loan from the Banque de France at 3 per cent. A guarantee committee was organized and the governor of the Bank undertook to direct the liquidation, the Bank making an advance of £7,000,000,—thus aiding the liquidation of the old firm of Baring Brothers. In order to preserve the extraordinary clientèle of the old house, which spread over the whole world, some members of the house, with other bankers, established a new joint-stock company with limited liability, under the same title, with a capital of £1,000,000.

In the course of two years the liquidation committee had sold securities to an amount sufficiently large that there remained to be paid only the advance of the bank, £7,000,000. But since the beginning of 1892, all hopes of a speedy revival of Argentine affairs having disappeared, the prices of Argentine stocks, shares, and bonds have fallen so low that the assets of the old house of Baring Brothers will scarcely leave any surplus for the members of this house at the expiration of the period of liquidation, which ends in one year and three months. The inventory of the assets was compiled according to the prices of October 31, 1890; but they have since fallen very seriously, in fact, from 20 to 40 per cent.

The old Spanish house of Murietta & Co. followed in the steps of Baring Brothers, and had also to be sustained in order to prevent a general collapse of business. The other issuing houses were also so assisted by friends that they were kept up, but the River La Plata Bank was obliged to suspend payments. With

scarcely £1,000,000 capital it had liabilities of nearly £10,000,000.

The whole human race seemed to be in collapse: revolution and financial bankruptcy in Portugal and Brazil, the *coup d'état* in Chili, war in Central America, a financial and commercial crisis in Argentina, a building crisis in Italy. With such a compound mixture of financial losses and dangers, it is not surprising that the minds of European investors became utterly depressed; that, notwithstanding the continued existence of peace, money was more and more expended on the first-rate stocks; that the spirit of enterprise was extinguished; that banks and bourses were overflowing with money; that bullion and coin in the Bank of England and in the German Imperial Bank surpassed for months the circulation of notes; and that the rate of discount for three months' bills sank below one per cent. per annum, a rate which for so long a space of time had never been known before.

One circumstance helped to increase an abundant store of gold in the large banks,—although the standard and currency reform in Austria, already adopted by legislation, will absorb at least \$100,000,000 of gold from the money market: I mean the Silver Act in the United States, which is driving gold to Europe. But this subject is not within my present plan. The question is now, how long will this recent extraordinary depression of business last in Europe? The efflux of gold from the United States caused by the new Silver Act might help to revive again the spirit of enterprise, but for the apprehension that a sudden change of the American currency policy might disturb operations in Europe.

But there are other facts and symptoms of an early revival, at least in Germany and Austria-Hungary. First, the new treaties of commerce between the states of Central Europe cannot fail to improve commerce. Austria-Hungary enjoys a reduction of duties on corn; so that Russia has proposed to the German government a commercial conference, which has already opened at Berlin. Italy, which is still depressed by the results of the building

crisis in Rome and Naples, will enjoy an increasing trade in her enormous wine-production, inasmuch as the vineyards of Italy have not been so much ravaged by phylloxera as those of France and Austria-Hungary. Austria-Hungary is in reality, since the 11th of August, feeling the effects due to the establishment of the gold standard, the Bank being empowered to buy gold with its notes. Before the new gold coins were minted, and even on the first three days, two million florins of gold were presented. The work of opening the Iron Gates of the Danube is going on very well, so that navigation will be opened for ocean steamers up to Budapest in three years. The crops are at an average in the greater part of Europe, and if the approaching cholera does not disturb the minds of business people,—stopping probably for the winter at the door of Russia,—the beginning of a revival may be expected by next spring, although the losses inflicted by Argentina and by over-speculation in bubbles will not very soon be repaired.

MAX WIRTH.

VIENNA.